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EQUITABLE ASSESSMENT BENCH MARKS

"IS the assessment on our property fair?" "How can we determine whether our assessment is higher than it ought to be?" or "How can the assessor figure our office building is worth so much more than the theater next door?" These are questions we have been asked many times in the last 20 years. Many of these questions are justified. We have found in many cities exceedingly unequal assessments. Usually the situation is due to old assessments which have not been scientifically established or reviewed. Since the property tax is such an important source of revenue for our State and local governments, it is imperative that the basis for this taxation be equitable.

In our business of appraising both for assessing authorities and for individual property owners with tax troubles, we have become better acquainted with the problems confronting both. The assessor usually has a staggering task to perform with insufficient help. The property owner is usually unfamiliar with the methods employed and does not know how to compare his assessment with others.

In order to familiarize the reader with the methods frequently applied in judging the fairness of assessments, we must first understand the principles generally applied by most assessors. The valuation of real estate for tax purposes by conventional appraisal techniques would be too cumbersome, expensive and time-consuming. Therefore, a system must be devised that may be applied rapidly with the least expense, be as equitable as possible, and utilize the minimum amount of professional help. Furthermore, the processes must be standardized to such a point that relatively untrained deputy assessors can apply the methods in aiming at the assessment of future additions to the assessment roll. The summation approach has generally been conceded to be the only method that meets these requirements.

To a great extent the weaknesses of many assessment programs coincide with the weaknesses of the summation approach to value. Following are some of the major considerations which are apt to be overlooked in using this reproduction-cost-less-depreciation method in assessments:

1. Gains or losses in value due to overimprovement or underimprovement of a property.

2. Economic depreciation.

3. Functional obsolescence.

4. Income-producing abilities which create value.

5. Effect of an unfavorable lease.

The tax assessors in most States are required to keep their assessments equitable and at "market value." There has been much debate and concern over the "market value" requirement as most assessors do not keep their rolls at anywhere near current values. Unfairness results, however, more from inequality with other properties than it does from the use of a value level that is too high or too low.

To judge the uniformity and equality of assessments in a particular city or county, the best method is to undertake a careful assessment-sales ratio survey. This means a detailed comparison of recorded sales with the assessments on the properties sold. Depending upon the need, this survey may cover every sale of all types of properties or it may be limited to only a sample of sales of a particular type of property.

We definitely feel that the best offensive against an unfair assessment is an accurate appraisal of value of the property combined with an assessment-sales ratio survey. The appraisal should be supported conclusively by all three generally accepted approaches - namely, the summation, comparative, and income approaches.

Many large corporations and public utilities regularly conduct these assessment-sales ratio surveys in order to keep local assessments on their scattered properties within reason. Generally these surveys are made by tax personnel in the legal departments of these companies. With the facts obtained and documented by a ratio survey, a strong case can then be presented to the Board of Tax Appeals or some such reviewing body with a better chance to secure relief from unfair assessments.

There are a number of cities, counties, and States which have conducted assessment-sales ratio surveys in one form or another to determine whether there is a need for a mass equalization program or to gain public support for such a reassessment plan.

Every city and county ought to make annual assessment-sales ratio studies to know at what level to assess new property being added to the rolls. Sales prices should be classified into groups of similar uses, such as urban and rural, and then residential, commercial, or industrial. A further analysis should be made of sales and assessed values by various sections of the city or county to determine whether assessments are uniform in all areas of the taxing jurisdiction.

Unfortunately, most property owners do not have the time or the money to

spend on making assessment-sales ratio surveys to find out if they are over-assessed. Only those who are sure that they are unfairly assessed do anything about it. It behooves civic organizations, real estate boards, chambers of commerce, and especially governmental research groups to analyze or to have analyzed the assessment rolls in our cities and counties to assure an equalized property tax base. Irregularities can be found and corrected when the ratio between value and assessments is publicized for all to examine.

The chart below illustrates the results of a small ratio survey made of the sales and assessments of 25 similar properties. It is clear where the average ratio of assessments to sales is in this instance. As a basis for equalization most of the properties sold had assessments which were about 55 percent of their sales price. A few properties were found, however, which were assessed far too high or too low. With a bona fide appraisal of his property which is similar to the ones checked, an owner can immediately determine whether his assessment is out of line.

In securing data on sales or transfers the following types of transactions should not be included:

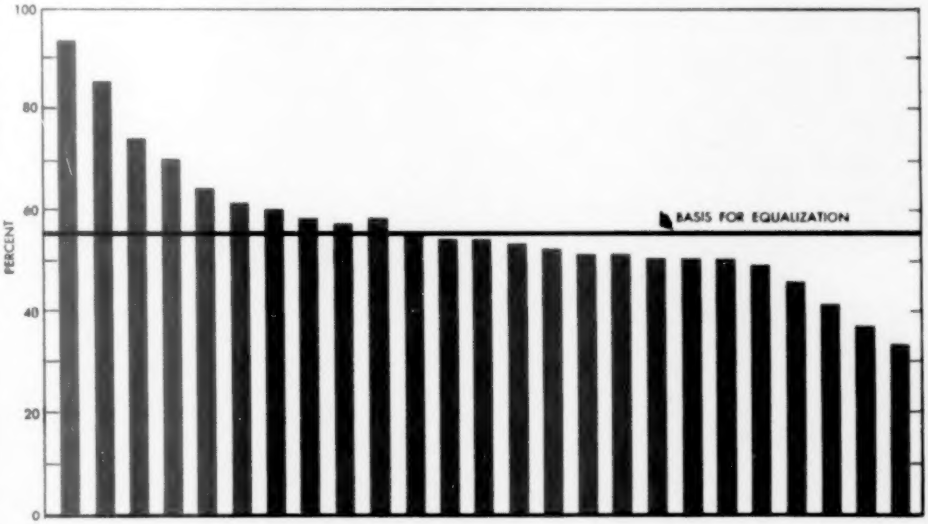
1. Sales between parties of the same family name.

2. Sales by sheriffs or auction sales.

A SAMPLE ASSESSMENT - SALES RATIO STUDY

FOR 25 SIMILAR PROPERTIES

EACH BAR REPRESENTS THE RELATIONSHIP BETWEEN CURRENT ASSESSMENT AND SALES PRICE



3. Sales or deeds of dedication to governmental bodies, utilities, or semipublic agencies such as churches, schools, benevolent or fraternal organizations.

4. Sales for fractional interest.

5. Sales involving a trade or exchange of property.

6. Any other sales or transfers which would not reflect a voluntary sale between a willing buyer and a willing seller.

We all know that the ad valorem tax on real estate is the backbone of our local governments' revenue structures. During recent years, we also have been aware of the financial strait-jackets in which so many communities have found themselves because of increasing costs of services provided. It has always been important to have equalized and uniform assessment rolls, but now more than ever before we should eliminate inequalities. The best bench marks, in our opinion, for demonstrating the goal of equality and uniformity are the assessment-sales ratio surveys.

If you have microfilm viewing equipment, Volume XX, 1951, of The Real Estate Analyst is now available on 35 mm. microfilm at $1.70 through University Microfilms, Ann Arbor, Michigan. Volume XVIII, 1949, is also available, at $1.50, and Volume XIX, 1950, at $1.85.

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